

# **THE PERFORMANCE OF MALAYSIAN UNIT TRUSTS INVESTING IN THE DOMESTIC VERSUS INTERNATIONAL MARKETS**

A research paper submitted to Graduate School in partial fulfillment of the requirements  
for the degree Master of Science (Finance)

Universiti Utara Malaysia

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## **Abstrak**

Tesis ini mengkaji hubungan antara pencapaian unit amanah domestik dengan unit amanah yang melaburkan dananya di luar negara. Kajian dijalankan untuk menyiasat sama ada unit amanah yang dilaburkan di pasaran luar negara dapat mencapai prestasi yang lebih tinggi berbanding unit amanah yang dilaburkan di pasaran tempatan. Dua puluh enam dana tempatan dikaji untuk tempoh Jun 2004 sehingga Mei 2008 manakala dana asing pula dikaji untuk tempoh Jun 2005 sehingga Mei 2008. Indeks komposit Kuala Lumpur (KLCI) dijadikan piawaian untuk dana tempatan dan indeks MSCI Asia Pacific serta MSCI World Free dijadikan penanda aras untuk dana asing. Maklumat yang diperolehi hasil daripada kajian ini diharap dapat membantu pelabur serta para pengurus dana untuk membuat keputusan pelaburan yang berkualiti.

Indeks Sharpe, Treynor dan Jensen diaplikasikan untuk mengukur prestasi unit amanah. Keuntungan purata dana tempatan didapati melebihi keuntungan purata dana asing. Walau bagaimanapun, apabila dana-dana tersebut dinilai dengan ujian Wilcoxon Signed Rank Test, Indeks Sharpe dan Jensen memberikan keputusan tidak signifikan, bermakna tiada perubahan signifikan di antara dana tempatan dan asing. Sebaliknya, keputusan ujian yang sama untuk Indeks Treynor memberikan keputusan yang bertentangan. Keputusan Indeks Sharpe diambil kira sebagai keputusan muktamad kerana ia didapati paling sesuai berdasarkan kajian-kajian terdahulu.

## **Abstract**

This thesis investigates the relationship between unit trusts invested domestically and overseas. The performances of unit trusts investing overseas are compared to unit trusts which are invested locally to determine whether it outperforms the local funds. Twenty-six local funds are studied for the period of June 2004 to May 2008 while twenty-three international funds are evaluated for the period of June 2005 to May 2008. The KLCI (Kuala Lumpur Composite Index) is used as the local funds' benchmark. The MSCI AC Asia Pacific and MSCI World Free are utilized as the international funds' benchmarks. The results of this study is hoped to be able to aid investors, funds managers and regulators of this industry to make sound decisions about their unit trust investments.

The Sharpe, Treynor and Jensen Indexes are used as the performance measures for the unit trusts. The local funds mean returns are found to exceed the international funds' mean returns. However, when the funds are tested using the Wilcoxon Signed Rank Test, the Sharpe and Jensen Indexes produced results which are not significant. This means that the performances of local funds do not differ from the performances of international funds. However, the Treynor Index result gave conflicting results. The Sharpe Index result is taken as the final result as it is found to be the most useful measure based on previous studies.

### **Acknowledgement**

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This research has enlightened me on the unit trust and fund management industry in Malaysia, and I hope the findings would also benefit future investors, fund managers and regulators of the industry.

I would also want to thank my husband, Zayad Ismail, who encouraged me to further my studies to Masters level, and has always been patient with my endless assignments and paper work.

## TABLE OF CONTENTS

DESCRIPTION	PAGE
PERMISSION TO USE	I
ABSTRACT (BAHASA MALAYSIA)	II
ABSTRACT (ENGLISH)	III
ACKNOWLEDGEMENTS	IV
LIST OF TABLES	VII
LIST OF FIGURES	VIII
CHAPTER ONE: INTRODUCTION	1
1.1 Problem Statement	3
1.2 Scope of Study	5
1.3 Significance of Study	6
1.4 Research Objectives	8
1.5 Organization of the Study	9
CHAPTER TWO: THE UNIT TRUST INDUSTRY IN MALAYSIA	10
2.1 International Unit Trusts: A Tool for Investors to Access International Markets	15
CHAPTER THREE: LITERATURE REVIEW	17
3.1 Portfolio Selection, Risk-Return Analysis and Evaluation Techniques	17
3.2 Mutual Fund Performances	23
3.3 International Mutual Fund Performances	26



<b>DESCRIPTION</b>	<b>PAGE</b>
<b>CHAPTER FOUR: MODEL SPECIFICATION AND DATA</b>	<b>31</b>
4.1 Data Sources	31
4.2 Model Specification	36
4.2.1. The Sharpe Ratio	38
4.2.2 The Treynor Measure	40
4.2.3 Jensen Portfolio Performance Measure	42
4.3 Wilcoxon Signed-Ranks Test	44
4.4 Hypothesis Testing	45
4.5 Summary	46
 <b>CHAPTER FIVE: ANALYSIS OF RESULTS</b>	 <b>47</b>
5.1 Wilcoxon Signed-Ranks Test	53
5.2 A Comparison of Performance Measures with Previous Studies	56
5.3 Summary	57
 <b>CHAPTER SIX: CONCLUSION</b>	 <b>59</b>
6.1 Overview	59
6.2 Implications of the Study	60
6.3 Limitations	61
6.4 Suggestions for Future Research	61
 <b>REFERENCES</b>	 <b>62</b>
 <b>APPENDIX</b>	
A: Mean Performances of Funds – Local and International	69 - 71
- Wilcoxon Signed-Ranks Test Results for Sharpe, Treynor and Jensen Performance Measures	

## LIST OF TABLES

<b>TABLES</b>	<b>PAGE</b>
Table 2.1 Summary of Unit Trust Funds	13
Table 3.1 Summary of Studies of International Funds Performances	29
Table 4.1 Local Funds Inception Dates, Total Assets and Benchmarks	34
Table 4.2 International Funds Inception Dates, Total Assets and Benchmarks	35
Table 5.1 Weekly Performance Measures for Twenty-Six Local Unit Trusts: June 2004 – May 2008	47
Table 5.2 Weekly Performance Measures for Fifteen International Funds Investing in Asia Pacific: June 2005 – May 2008	50
Table 5.3 Weekly Performance Measures for Eight International Funds Investing Globally: June 2005 – May 2008	50
Table 5.4 Z-score Results for Wilcoxon Signed-Ranks Test	54



## **LIST OF FIGURES**

<b>FIGURES</b>	<b>PAGE</b>
Figure 2.1 Statistics on Malaysia Unit Trust Funds from Year 2003 to 2007 (Total Net Asset Value)	11
Figure 2.2 Summary of Statistics: Average Returns for Malaysia Equity Funds	12
Figure 5.1 Distribution of Risk Adjusted Returns	54

## **CHAPTER ONE**

### **INTRODUCTION**

Throughout the world, mutual funds are recognized as an investment tool that can assist investors to grow their wealth and diversify their investment portfolios. Mutual funds, which are more popularly known as unit trusts in Malaysia, had experienced considerable growth over the last decade in terms of the number of funds offered and volume of capital managed by unit trust management companies (UTMCs). The Malaysian unit trust industry has been one of the fastest growing sectors within the finance industry in the last two decades (Choong, 2005).

With the development of the unit trust industry in Malaysia, investors later found that they could invest in a diverse array of securities traded within Malaysia and abroad. The number of funds that choose to invest in the international equity markets grew as fund management companies identified the benefits of diversifying the funds in these markets.

The financial success of an internationally diversified mutual fund portfolio depends partly on the ability of the total portfolio to generate risk-adjusted returns equal to or greater than the domestic stock market. Success is also determined by the ability of the international funds within the portfolio to match or outperform market benchmarks and to generate returns better than those of domestic mutual funds. Otherwise, it will not be worthwhile for investors to spend the time and effort necessary to select an international or global fund for portfolio inclusion.

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### **6.3 Limitations**

This study addressed the risk-adjusted returns of local and international funds without taking into consideration the costs included in investing in the funds, risks to be borne and diversification benefits of each type of fund. The time period studied by the funds was also limited as funds were only allowed to invest globally in the year 2005.

This study also does not take into consideration the different asset sizes of the funds as there was a limited number of sample to be included in the study if this was done.

### **6.4 Suggestions for future research**

Future studies could concentrate on the effects of load fees and costs included in both local and international funds when comparing the performances of both types of funds. In addition, diversification benefits, as computed by  $R^2$  could be considered to guide investors on whether or not they are able to diversify effectively.

There are many risks involved when investing abroad. Thus, it is essential to study the risks that investors would probably have to bear when investing overseas. Studies could include effects of hedging the international funds to protect investors from economic downturns, currency fluctuations and inflation. Similarly, uniformed asset sizes and a longer study period could also be taken into consideration to produce more accurate results and reliable findings.

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